KEY ECONOMIC INDICATORS UPDATE

HOUSE FISCAL AGENCY

P.O. Box 30014, Lansing, MI 48909-7514
Phone: 517-373-8080 FAX: 517-373-5874
Internet: www.house.state.mi.us/hfa
Mitchell E. Bean, Director; Rebecca Ross, Senior Economist

Economic Data Pertaining to the U.S. and Michigan Economies for Members of the Michigan Legislature

BI-MONTHLY PUBLICATION
July/August 2002
Volume 8, No. 4

In The News . . .

Consumer attitudes influence purchasing decisions and, thus, the level of personal consumption expenditures. The Index of Consumer Sentiment (ICS), used in predicting economic trends, provides an indication of how consumers view both current and future economic conditions.

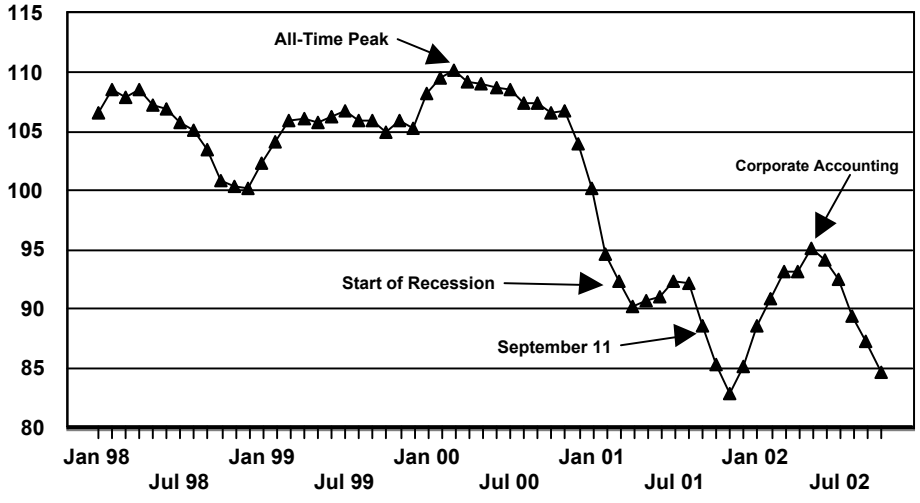
The accompanying graph shows the ICS back to January of 1998, using a three-month moving average to provide a clearer view of the overall trend. Note that the ICS reached its all-time high in early 2000, just as the economic growth of the 1990s began to abate. Even though the current U.S. economic recession officially began in March 2001, the ICS began a precipitous drop several months earlier in the Fall of 2000. This change can be traced to a general uneasiness about the economy, which was beginning to experience increases in previously low unemployment rates. Additionally, the stock market began to taper off after hitting all-time highs. As a result, consumers may have feared the onset of a recession.

After the decline in late 2000, the ICS experienced a brief recovery before experiencing another substantial drop. While much of that drop can be traced to the events of September 11, the ICS had started to fall prior to the attacks. The index bottomed out shortly thereafter, then began to rise just as sharply as it had dropped. An improving stock market contributed to this rise, but revelations of accounting irregularities involving a number of corporations set off a series of wide fluctuations in stock prices that sent the ICS tumbling.

The most recent ICS puts the index at a level approaching the post-September 11 low, and indicates that consumers are still concerned about ongoing weaknesses in the national economy.

Source: University of Michigan ÷

Index of Consumer Sentiment
1966:Q1 = 100

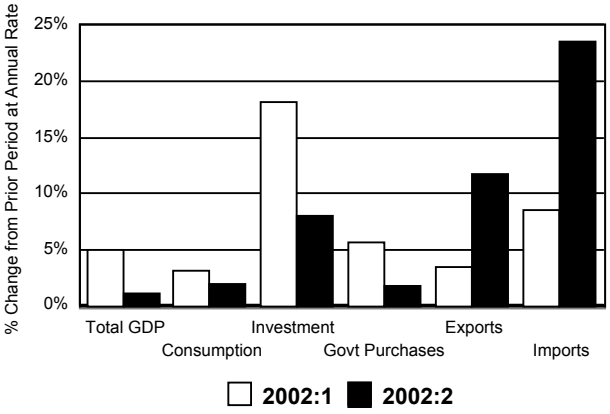


The U.S. Economy . . .

Gross Domestic Product

Gross domestic product (GDP) is the standard measure of the performance of the national economy. It has four main components: personal consumption expenditures, gross private domestic investment, government consumption expenditures and gross investment, and net exports (exports less imports) of goods and services. Real GDP rose at a seasonally adjusted annual rate of 1.1% during the second quarter of 2002 after growing 5.0% during the first quarter of 2002. For calendar year 2001, real GDP grew 1.2%.[1]

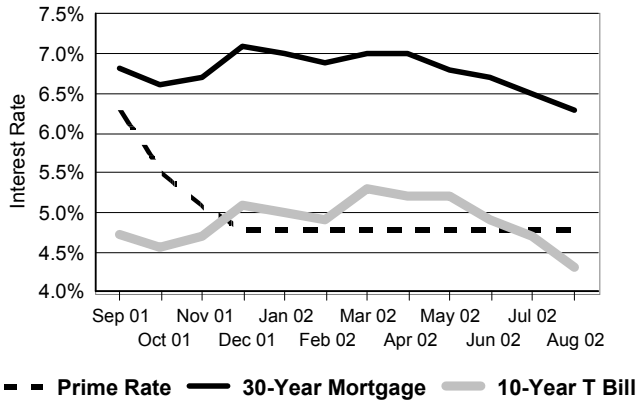
Real GDP Performance



Personal consumption expenditures (almost two-thirds of GDP) grew 1.9% during the second quarter of 2002 after increasing by 3.1% during the first quarter. Following an 18.2% jump during the first quarter, gross private domestic investment rose at a slower 8.1% rate during the second quarter. As in the case of the first quarter, most of this increase can be attributed to an inventory correction and, thus, does not reflect new investment purchases.

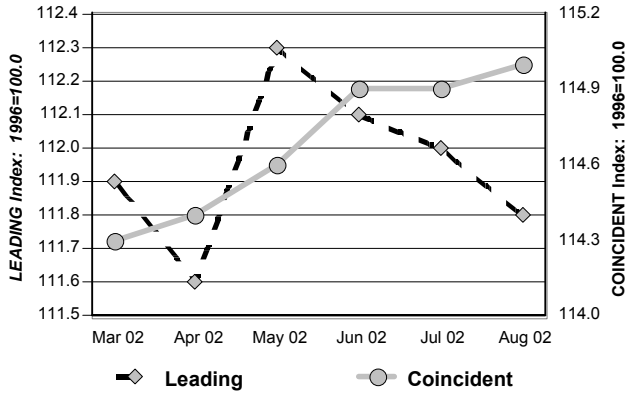
Key Interest Rates

Selected Interest Rates



Interest rates are based on Federal Reserve policy, length of term, and perceived risk of future inflation. Short-term interest rates (as measured by the prime rate) have remained constant while medium-term interest rates (as proxied by the rate on ten-year Treasury securities) and long-term rates (as measured by the 30-year conventional mortgage rate) have declined slightly over the last few months—primarily due to the lack of any additional rate cuts by the Federal Reserve. In addition, the lack of recent volatility suggests that, for the foreseeable future, lenders do not view inflation as a potential problem.

Leading and Coincident Indicators



Leading and Coincident Economic Indicators

The composite index of leading economic indicators (LEI), which is used to predict the future path of the economy, dropped slightly in July to 112.0, and dipped again in August to 111.8. The LEI has experienced a net decline of 0.1% over the past six months. Conversely, the index of coincident economic indicators, which is used as a gauge of current economic conditions, has risen by 0.7% over the past six months, and stands at 115.0 in August. Although the upward trend in the coincident index is encouraging for the economy, the lack of any recent improvement in the leading index suggests that the economy is unlikely to experience appreciable growth in the immediate future.

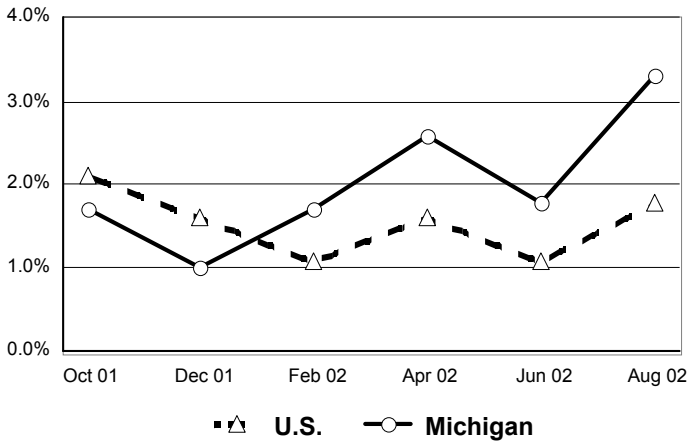
[1] Data on macroeconomic variables from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis. Interest rate data from the Federal Reserve Board. Data on leading and coincident indexes from *Business Cycle Indicators*, The Conference Board.

U.S. and Michigan Comparisons . . .

Inflation

Inflation measures the change in the general level of prices over time. One frequently-used gauge of inflation is the consumer price index (CPI), or for Michigan, the Detroit-Ann Arbor CPI (D-CPI). In August 2002, the CPI posted a 1.8% increase from one year ago while the August 2002 D-CPI advanced at a brisker 3.3% pace.[2] When viewed from an historical perspective, these increases are small and suggest that inflation is currently not a significant concern.

U.S. and Michigan Inflation Rates



The inflation rate is influenced by a number of factors. Among the most significant are the producer price index (PPI), the employment cost indexes for total compensation and wages and salaries, and labor productivity. Increases in producer prices, wages and salaries paid, and total compensation will tend to cause higher prices at the consumer level. In contrast, increases in labor productivity will help offset rising wages, salaries, and compensation and thus moderate the impacts of these factors.

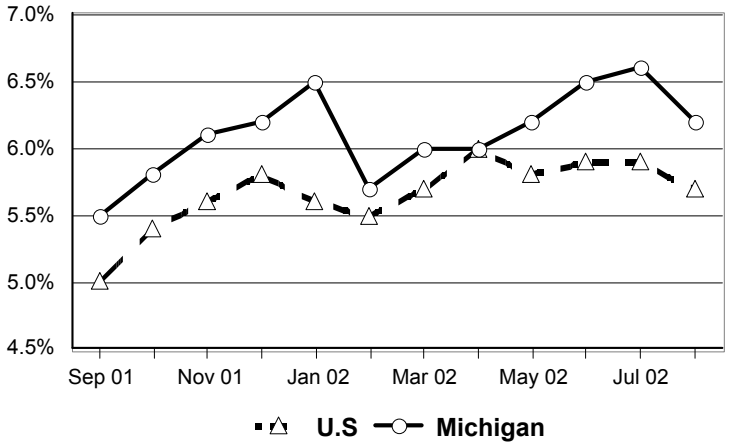
Economic Measures Key to Inflation

Economic Measure	Time Period	Current Value	% Change from Year Ago
Producer Price Index	August 2002	138.7	-1.6%
Total Compensation Index	2nd Quarter, 2002	160.7	4.0%
Wage and Salary Index	2nd Quarter, 2002	156.3	3.6%
Labor Productivity Index	2nd Quarter, 2002	122.3	4.9%

Unemployment

Michigan's unemployment rate has been at or above the U.S. rate from January 2001 through August 2002. The unemployment rate in Michigan climbed to 6.6% in July before dropping to 6.2% in August. During the same time period, the U.S. rate rose to 5.9% before tapering off to 5.7%.

U.S. and Michigan Unemployment Rates



Employment

In August 2002, total U.S. employment rose slightly to just under 134.5 million workers, almost exactly the same level as in August 2001. For Michigan, total employment in August 2002 remained below 4.9 million workers, which translates to a 1.1% decline (or a loss of almost 54,900 jobs) when compared with one year ago.

[2] Both consumer price indexes, the producer price index, both employment cost indexes, the labor productivity index, and all labor force data from the U.S. Bureau of Labor Statistics.

The Michigan Economy . . .

Total wage and salary employment in August 2002 fell by 0.9% relative to one year ago. The three largest sectors (services, wholesale and retail trade, and manufacturing) all saw employment decreases. With the exception of the manufacturing sector, average weekly earnings increased for workers in all other sectors relative to August 2001. Workers in the transportation and public utilities; finance, insurance, and real estate; and services sectors saw the largest earnings gains.[3]

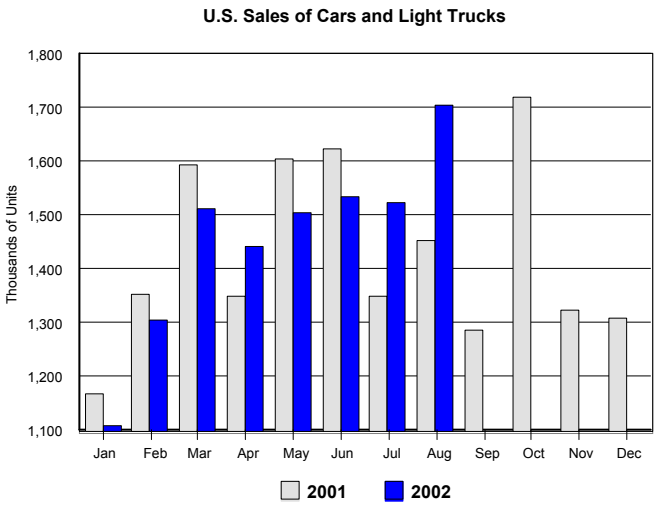
Michigan Labor Market Data

	Wage and Salary Employment (in Thousands)		Average Weekly Earnings (in Dollars)	
Industry Classification	August 2002	Percent Change from Prior Year	August 2002	Percent Change from Prior Year
Mining and Construction	224.3	0.0%	$879.77	1.6%
Manufacturing	907.1	-2.1%	$832.75	-0.5%
Durable Goods	683.6	-2.8%	$897.15	-0.5%
Nondurable Goods	223.5	0.4%	$618.74	-0.4%
Transportation and Public Utilities	181.1	-0.8%	$701.61	3.6%
Wholesale and Retail Trade	1,058.6	-1.7%	$413.30	1.3%
Finance, Insurance, and Real Estate	213.1	0.3%	$550.74	1.4%
Services	1,308.0	-0.7%	$512.05	4.4%
Total Government	623.0	1.0%	N/A	N/A
TOTAL WAGE AND SALARY EMPLOYMENT	**4,515.2**	**-0.9%**	N/A	N/A

U.S.

Motor Vehicle Sales

Monthly light vehicle sales exceeded 1.5 million units in July and 1.7 million units in August, both of which represented substantial increases from the year before. Light vehicle sales in July and August were strong enough that for the first eight months of 2002, sales have surged ahead of 2001's near record pace. Year-to-date, light vehicle sales measure just over 11.6 million units, a 1.5% increase relative to the first eight months of 2001. Compared with the January through August period last year, sales of domestic light vehicles have fallen by 0.5% while sales of imports have increased at a 10.7% rate. Imports now constitute 19.5% of all light vehicle sales.



Michigan

Motor Vehicle Production

In August 2002, Michigan light motor vehicle production stood at 259,505 units—about 8.5% ahead of last year. Auto production increased by 4.8% while light truck production rose by 14.7%. Through the first eight months of 2002, total light motor vehicle production in Michigan is about 8.0% ahead of last year's pace.

[3] Michigan employment and wage data from the U.S. Bureau of Labor Statistics. Automotive figures are published in *Automotive News*; calculations by HFA. Michigan auto production data from the Office of Revenue and Tax Analysis, Michigan Department of Treasury.